

October 18, 2019

The Honorable J. Mark McWatters  
Chairman  
National Credit Union Administration Board  
1775 Duke Street  
Alexandria, VA 22314

Dear Chairman McWatters

Thank you for permitting us to review and comment on the NCUA 2018 – 2019 proposed budget. I am submitting these written comments for the record.

My name is Gordon Sam. I am the Chairman of the Pearl Hawaii FCU and a member of the CUNA Examinations and Supervision Sub-Committee. Last year I had the privilege of testifying on the 2017- 2018 budget before the NCUA board.

I am pleased that NCUA is taking steps to reduce future cost by reducing the number of regions from 5 to 3, improving the examination process, exploring virtual exams.

These are my comments from reviewing the draft 2018 – 2019 budget.

1. Page 3 identifies that the operating budget should be the focus of the review
2. Page 15 summarizes the reduction in positions in 2018 and 2019. It is good to see that the regions staffing in 2018 will be reduced by 57, 35 due to modernization and 22 for other reasons. Modernization will result in reducing 13 positions elsewhere but will require an additional 26 positions. So let us examine the causing an increase in the budget.
3. Page 5 shows that pay & benefits make up 74% of the 2018 operating budget. Page 5 also shows that the change in pay & benefits from the 2017 restated budget and the 2018 budget is \$6.3 million, with a net reduction of 42 FTE. In 2017 the average salary per FTE was \$166 thousand. Initially one would conclude that the reduction of 42 FTE should have resulted in a reduction of about \$7 million in pay and benefits. A closer examination of page 46 shows that the reduction in the regions amounted to \$9.062 million and that primarily the increases were in the Office of the CFO (an additional 14 FTE, \$4.72 million), Credit Union Resource and Expansion (an additional 8 FTE, \$3.9 million), Office of General Counsel (an additional 13 FTE, \$3.22 million), Office of Chief Information Office (an additional 3 FTE, \$2.679 million)

4. This leads to the question of why there is no correlation between the increase in FTE and the increase in the \$ amount increase. A review of the budget summary for each office was therefore conducted.
  - a. Page 50 Office of the CFO - The summary shows a decrease of \$2,116,006 in lieu of an increase of \$4.72 million shown on page 46. The decrease was due to a cut of \$6,445,150 in the administrative area. Page 4 informs us that Administrative Expenses cover recruitment, advertising, and others. It appears the recruiting and advertising expenses for all of NCUA is lumped under the Office of the CFO. Page 50 also shows a travel budget of a negative \$435,000. Why is this negative? The employee compensation increased \$2,333,444 with a 14 FTE increase. It seems like the operating budget on p 46 does not include projected expenses such as travel, administration cost, and rent and contracts shown on page 50.
  - b. Page 51 Office of Resource and Expansion – Employees compensation increased \$3,742,871 with an 8 FTE increase. If you set up a ratio of increase compensation divided by increase position, for each office the ratio for this office is 2.8 higher than that of Office of the CFO. Is this due to higher paid personnel in this office compared to the Office of the CFO?
  - c. Page 51 - Office of General Counsel – Employees compensation increased \$3,118,331 with a 13 FTE increase. Ratio is 1.43 higher than the Office of the CFO but lower than the Office of Resource and Expansion
  - d. Page 50 Office of the Chief Information Officer – Employees compensation increase \$869,019 with 3 FTE increase. Ratio is 1.74 higher than the Office of CFO. Higher rent and contract cost contributed to high increase
  - e. It appears the cost increase for adding additional personnel varies among the different Offices. Is this due to the classification of personnel hired?
5. Page 13 states that Albany region 1 and the Atlanta region 3 will close on December 31, 2018, and that Alexandria will absorb most of the Albany region states and Austin will absorb the former Atlanta states while giving up its western states to Tempe. Page 15 shows that the requested positions of 127 FTE for region 1 and 124 FTE for region 3 in the 2019 budget. Shouldn't these positions be redistributed to the current regions 2, 4 and 5?
6. A review of the proposed region staffing shown on pages 15 shows a total reduction of 15 FTE in 2019. This number seems kind of low. The closing of 2 regions should have eliminated duplicate positions. With the number of credit unions continuing to decrease at almost 25% each year the number of examiners should decrease.

Thank you for permitting me to submit my views for the record.

  
Gordon Sam